

ISSUE DATE: August 30, 1995

DOCKET NO. G-008/M-94-1075

ORDER APPROVING NAS METHODOLOGY TARIFF AS MODIFIED AND REQUIRING
INFORMATION IN FUTURE NAS REQUESTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
Joel Jacobs
Marshall Johnson
Dee Knaak

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Minnegasco for
a Miscellaneous Tariff Change to Establish a
Procedure for Determining a New Area
Surcharge Rider

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PROCEDURAL HISTORY

On November 18, 1994, Minnegasco, a Division of NorAm Energy Corporation (Minnegasco or the Company) submitted its request for approval of a procedure for determining a New Area Surcharge (NAS).

On January 18, 1995, the Minnesota Department of Public Service (the Department) filed its comments recommending approval with three modifications.

On January 30, 1995, the Company filed reply comments accepting two on the Department's recommended modifications but objecting to the third recommendation.

On March 23, 1995, the Department submitted a response to Minnegasco's reply comments.

On May 26, 1995, Minnegasco submitted a modified request.

On July 7, 1995, Minnegasco submitted a second modified request.

On July 14, 1995, the Department filed comments recommending approval of Minnegasco's request as modified in the second modification and a recommendation for filings for specific projects.

On August 17, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Background

There are areas of Minnesota currently not served by any natural gas distribution systems because the cost to serve these areas cannot be economically justified. To mitigate the effect on current ratepayers, the Commission has (on a case by case basis) authorized gas utilities to impose a New Area Surcharge (NAS) to recover a project's revenue deficiency from customers who are willing to pay more than the standard rates to receive gas service. The Commission has required that the NAS be calculated to recover the projected costs associated with the project above the levels of revenues projected to be recovered by the project at standard tariffed rates.

B. Minnegasco's Original Proposal

In this filing, Minnegasco did not request approval of any particular NAS. Instead, the Company sought approval for the analytical and administrative framework to be used for specific requests for determining new area surcharges. The Company clarified that it would calculate a specific NAS for each project and submit each proposed surcharge to the Commission for approval in a miscellaneous rate change filing.

The Company proposed that each proposed NAS would be a fixed monthly charge that would be charged until the revenue deficiency is recovered or for a maximum of fifteen years, whichever comes sooner. Surcharge payments would be terminated in less than 15 years if the revenue collected (including the surcharge) recovers the total extension cost of the project. If the revenue deficiency was not recovered within the fifteen year limitation, the Company's shareholders would absorb the under-recovery.

Minnegasco stated

- 1) that this process will hold the Company responsible for incorrect forecasts used in developing the surcharge and
- 2) that if a refund situation ever occurs the Company would refund the over-recovery to the new area customers including interest at the average prime rate.

In addition, the Company proposed that each NAS proposal would include an annual reporting requirement covering all projects subject to a new area surcharge.

C. Minnegasco's Modified Proposal Modified

In response to the Department's recommendations, Minnegasco agreed

- 1) to calculate the total revenue requirement over the average service life of the plant installed; and
- 2) to make a miscellaneous rate change filing prior to implementing any NAS, such filing to include an updated tariff sheet, spreadsheets, workpapers, surcharge rate proposed customer notice, and all pertinent contract demand entitlement change requests.

The Company did not agree, however, with the Department recommendation to require Minnegasco to record *all* NAS revenue as contribution-in-aid-of-construction (CIAC). Minnegasco argued that the NAS is similar to a financing arrangement with installments over a period of time. Minnegasco's proposal to record only the net present value (NPV) of the surcharges as the CIAC is the most equitable way to treat the surcharge revenues. In a subsequent filing, the Department stated that while it believed that accounting for the gross surcharge as a CIAC is the better method, it would not oppose the Company's request to count only the NPV of the surcharge as a CIAC.

Following discussion with Commission and Department representatives, Minnegasco submitted two filings which, taken together, modified the Company's original proposal in several respects. The Company explained that its aim in modifying its proposal was to align the Company's model with other analytical NAS models approved by the Commission.¹ In its final version, Minnegasco's modified proposal incorporated the following modifications:

- the gross plant investment in the first year was reduced by the present value (NPV) of the surcharges
- the NPV of the surcharges was included in the deferred tax calculation
- the tax gross up of the surcharges was eliminated
- reduction of the rate base by the average accumulated surcharge was eliminated
- the total revenue requirement was calculated over the average service life of the plant installed

D. Commission Action

¹ Minnegasco's Second Modified Proposal differed from its first modified proposal (filed on May 26, 1995) only in that it reversed two items not required to align Minnegasco's model with previously approved models.

The Commission has thoroughly reviewed Minnegasco's NAS tariff language, as modified, and finds that it is generally acceptable. However, the Commission finds that two further modifications are warranted:

1. to clarify the tariff and more accurately present the methodology used in the model, the second and third paragraph under Method on page 10 of the proposed tariff should be combined and two sentences appearing in those paragraphs should be deleted, as follows:

The Net Present Value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the overall rate of return authorized in the most recent general rate proceeding. ~~The model will sum all the existing retail rate revenues and the surcharge that is required to balance the model. A total NPV of zero (\$0) is the desired result.~~ Projected customer CIAC surcharge revenues are then introduced into the model and the resultant NPV calculation is made to decide if the project is self supporting. A total NPV of approximately zero (\$0) will show a project is self supporting.

2. to correctly describe the actual calculation of the property tax made in the model, the definition of the property tax calculation appearing in the tariff should be revised to read: "In any year [the property tax] shall be a factor of the gross plant investment (after contribution -in-aid-of-construction)." Bracketed material not to appear in the tariff.

To underline the limited function of the proposal approved in this Order, the Commission clarifies that the Company will be required to make a miscellaneous rate case filing and receive approval for a miscellaneous rate change prior to implementing any particular NAS. In addition, the approval of this method for calculating the surcharge does not alter the standard understanding that the Company is at risk for any under-recovery of the deficiency resulting from inaccuracies in its forecast.

ORDER

1. Minnegasco's proposed New Area Surcharge (NAS) analytical methodology as modified in its second modification (filed July 2, 1995) and further modified in this Order (see page 4) is approved.
2. Prior to implementing any NAS, Minnegasco shall submit a miscellaneous rate change request and receive Commission approval for that NAS. The Company's miscellaneous rate change request shall contain the following:
 - an updated surcharge tariff sheet and its related spreadsheets with and without the proposed surcharge for each new surcharge area;
 - its workpapers showing all underlying assumptions concerning interest rates, costs,

depreciation, demographics, rate structure, etc.;

- a surcharge rate for each customer class, even if no customers are anticipated for the class;
- the Company's proposed customer notice; and
- all pertinent contract demand entitlement change requests as soon as the required information is ascertained.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)